ZAMIL INDUSTRIAL INVESTMENT COMPANY (ZAMIL INDUSTRIAL) AND ITS SUBSIDIARIES (A Listed Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 AND INDEPENDENT AUDITORS' REPORT

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Independent Auditor's Report to the Shareholders of Zamil Industrial Investment Company (A Saudi Joint Stock Company)

Opinion

We have audited the consolidated financial statements of Zamil Industrial Investment Company ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each key audit matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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Independent Auditor's Report to the Shareholders of Zamil Industrial Investment Company (A Saudi Joint Stock Company) - continued

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of trade receivables The Group has gross accounts receivable of SR 2,221 million as at 31 December 2019 including certain overdue balances amounting to SR 1,202 million against which the Group has recorded a provision for expected credit losses amounting to SR 325 million. Assessment of provision for expected credit losses is highly subjective due to the significant judgement, estimates and assumptions applied by the management in determining the expected losses. The management is required to determine an expected loss rate against its outstanding accounts receivables based on the Group's historical credit loss experience adjusted with forward-looking information. The assessment of the correlation between historical observed loss rates, forecast economic conditions and expected future cash flows is a significant estimate. Given the complexity and judgements related particularly to the calculation of expected credit losses we considered this area as a key audit matter. Refer to note 24 for further details.	In order to assess the appropriateness of the management's judgment and estimates, following procedures were performed: ▪ We evaluated the Group's processes and controls relating to the monitoring of accounts receivable and review of credit risks of customers. ▪ We evaluated the appropriateness of significant judgements, estimates and assumptions made by the management. ▪ We analysed the accounting policies and assessed the methodology developed to calculate the expected loss rate. ▪ We checked the mathematical accuracy of the model and recalculated expected losses on a sample basis. ▪ We analysed the results of expected credit loss model performed by the Group. Tested the accounts receivable aging and other source data used in assessment on a sample basis. ▪ Assessed the adequacy of the Group's disclosure regarding expected credit losses of accounts receivable and the management's assessment of the credit risk and their responses to such risks.

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Independent Auditor's Report to the Shareholders of Zamil Industrial Investment Company (A Saudi Joint Stock Company) - continued

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition of long-term contracts One of the Group's significant revenue streams is derived from long-term contracts. The Group recognises revenue from long-term contracts using percentage of completion method. The determination of the percentage of completion requires significant management judgement and estimates such as assessment of costs incurred over total cost of the project, survey of work done and the process for identification of loss making contracts. The revenues and costs related to a project include estimates, as the project scope may change and the total costs of a project depend on various factors including material and labour costs. Accounting policies for revenue recognition related to long-term contracts are given in note 2 to the consolidated financial statements. Considering the above, revenue recognition from construction contracts has been determined as a key audit matter. The recoverability of contract assets related to long-term contracts is therefore based on management's evaluation and best estimate of the ultimate realisation of these balances.	Our audit procedures in relation to revenue recognition of long term contracts included: ▪ Reviewed the Group's estimation process (including the approval of project budget, monitoring of project costs and activities, and management's review and customer's approval of project's stage of completion and milestones achieved) used in determining the amounts of revenue and costs recognised in the consolidated financial statements. ▪ On a sample basis, reviewed the contractual terms and work status of the customer contracts, along with discussions with management and checked that contract revenue was recognised according to the percentage of completion of each project measured by the stage of completion of physical activities. ▪ Performed analytical procedures to compare revenue and gross margin with those reported in prior periods for identifying significant fluctuations, and obtaining explanations from management about such fluctuations. ▪ Reviewed the re-forecast of contract costs, on a sample basis, arising from contract modifications and analysed current on-going negotiations and settlements that may impair the profitability of such contracts as well as the collectability of significant contracts by reference to the recent credit review assessment of each customer prepared by management. ▪ Assessed the recoverability of contract assets by considering if work is physically certified and progress billings have been raised since the year-end. ▪ Assessed the adequacy of disclosures in describing the areas of judgement and estimation uncertainties involving revenue recognition and work executed in excess of billings.

Independent Auditor's Report to the Shareholders of Zamil Industrial Investment Company (A Saudi Joint Stock Company) - continued

Other information included in The Group's 2019 Annual Report

Other information consists of the information included in the Group's 2019 annual report, other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information in its annual report. The Group's 2019 annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Group's 2019 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants and the provisions of Companies' Law and Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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Independent Auditor's Report to the Shareholders of Zamil Industrial Investment Company (A Saudi Joint Stock Company) – continued

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

for Ernst & Young

Waleed G. Tawfiq
Certified Public Accountant
Registration No. 437

27 Rajab 1441H
22 March 2020

Al Khobar

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

Zamil Industrial Investment Company (A Saudi Joint Stock Company) and its Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2019

	Notes	***2019*** ***SR'000***	*2018* *SR'000*
CONTINUING OPERATIONS			
REVENUES			
Revenue from contracts with customers	6	**4,263,249**	4,297,734
Finance lease income		**14,977**	15,915
		4,278,226	4,313,649
DIRECT COSTS			
Cost of sales	7	**(2,711,091)**	(2,770,845)
Contracts cost	8	**(969,188)**	(827,434)
		(3,680,279)	(3,598,279)
GROSS PROFIT		**597,947**	715,370
EXPENSES			
Selling and distribution	9	**(223,596)**	(222,835)
General and administration	10	**(403,676)**	(505,610)
OPERATING LOSS		**(29,325)**	(13,075)
Share in results of associates and a joint venture	19	**9,195**	(3,964)
Other income, net	11	**21,540**	6,256
Finance costs	12	**(121,379)**	(103,211)
Impairment loss reversal on non-current assets, net	13	**34,584**	47,967
LOSS BEFORE ZAKAT AND INCOME TAX FROM CONTINUING OPERATIONS		**(85,385)**	(66,027)
Zakat and income tax	37	**(23,323)**	(20,468)
Deferred tax	37	**(7,005)**	6,837
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**(115,713)**	(79,658)
DISCONTINUED OPERATIONS			
Loss after zakat and income tax for the period from discontinued operations	14	**(13,997)**	(54,328)
NET LOSS FOR THE YEAR		**(129,710)**	(133,986)
NET LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Shareholders of the parent company		**(138,809)**	(139,833)
Non-controlling interests		**9,099**	5,847
		(129,710)	(133,986)
EARNINGS PER SHARE FROM NET LOSS:			
Basic and diluted earnings per share attributable to the shareholders of the parent company	15	**(2.31)**	(2.33)
EARNINGS PER SHARE FOR CONTINUING OPERATIONS:			
Basic and diluted earnings per share attributable to the shareholders of the parent company	15	**(2.08)**	(1.43)

The attached notes 1 to 45 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019

	Notes	***2019*** ***SR'000***	*2018* *SR'000*
NET LOSS FOR THE YEAR		**(129,710)**	(133,986)
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to income in subsequent periods:			
Foreign currency differences on translation of foreign operations		**154**	1,070
Net other comprehensive income to be reclassified to income in subsequent periods		**154**	1,070
Other comprehensive income not to be reclassified to income in subsequent periods:			
Net loss on equity instruments at fair value through other comprehensive income	20	**(1,398)**	(20,441)
Actuarial gains (losses) on employees' defined benefit liabilities	32	**3,067**	(9,498)
Share in other comprehensive income (loss) of an associate	19	**193**	(480)
Net other comprehensive income not to be reclassified to income in subsequent periods		**1,862**	(30,419)
Other comprehensive income for the year		**2,016**	(29,349)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(127,694)**	(163,335)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Shareholders of the parent company		**(136,619)**	(169,006)
Non-controlling interests		**8,925**	5,671
		(127,694)	(163,335)

The attached notes 1 to 45 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Notes	*2019 SR'000*	*2018 SR'000*
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	16	**960,708**	1,018,511
Right-of-use assets	17	**119,186**	-
Other intangible assets	18	**-**	5,030
Investments in associates and a joint venture	19	**79,872**	85,384
Equity instruments at fair value through other comprehensive income	20	**39,140**	40,538
Net investments in finance lease	21	**317,104**	340,683
Goodwill	22	**21,126**	21,126
Deferred tax assets	37	**6,024**	10,231
TOTAL NON-CURRENT ASSETS		**1,543,160**	1,521,503
CURRENT ASSETS			
Inventories	23	**1,239,391**	1,344,767
Accounts receivable	24	**1,895,662**	2,043,156
Contract assets	25	**494,756**	413,369
Advances, other receivables and prepayments	26	**249,599**	265,359
Current portion of net investment in finance lease	21	**23,578**	22,600
Cash and cash equivalents	27	**197,252**	152,457
TOTAL CURRENT ASSETS		**4,100,238**	4,241,708
TOTAL ASSETS		**5,643,398**	5,763,211
EQUITY AND LIABILITIES			
EQUITY			
Share capital	28	**600,000**	600,000
Statutory reserve		**180,000**	180,000
Retained earnings		**533,202**	668,577
Foreign currency translation reserve		**(26,989)**	(26,583)
Fair value reserve		**(7,446)**	(6,048)
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY		**1,278,767**	1,415,946
NON-CONTROLLING INTERESTS	30	**201,068**	208,169
TOTAL EQUITY		**1,479,835**	1,624,115
NON-CURRENT LIABILITIES			
Term loans	31	**144,986**	38,734
Employees' defined benefit liabilities	32	**234,332**	246,979
Lease liabilities	17	**80,634**	-
Deferred tax liabilities	37	**7,388**	4,982
TOTAL NON-CURRENT LIABILITIES		**467,340**	290,695
CURRENT LIABILITIES			
Accounts payable	33	**392,219**	456,521
Accruals and provisions	34	**413,053**	383,911
Short term loans	35	**2,481,828**	2,624,548
Current portion of term loans	31	**47,400**	43,703
Current portion of lease liabilities	17	**22,886**	-
Contract liabilities	36	**294,028**	292,350
Zakat and income tax provision	37	**44,809**	47,368
TOTAL CURRENT LIABILITIES		**3,696,223**	3,848,401
TOTAL LIABILITIES		**4,163,563**	4,139,096
TOTAL EQUITY AND LIABILITIES		**5,643,398**	5,763,211

The attached notes 1 to 45 form part of these consolidated financial statements.

Zamil Industrial Investment Company (A Saudi Joint Stock Company) and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributed to shareholders of the parent company							
	Share capital	*Statutory reserve*	*Retained earnings*	*Foreign currency translation reserve*	*Fair value reserve*	*Total*	*Non-controlling interests*	*Total equity*
	SR '000	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*
Balance at 1 January 2018	600,000	180,000	903,485	(25,433)	(10,880)	1,647,172	208,120	1,855,292
Net (loss) income for the year	-	-	(139,833)	-	-	(139,833)	5,847	(133,986)
Other comprehensive income	-	-	(35,075)	1,070	4,832	(29,173)	(176)	(29,349)
Total comprehensive income	-	-	(174,908)	1,070	4,832	(169,006)	5,671	(163,335)
Dividends (note 29)	-	-	(60,000)	-	-	(60,000)	-	(60,000)
Reclassification to income on disposal of discontinued operations (note 14)	-	-	-	(2,220)	-	(2,220)	-	(2,220)
Movement in non-controlling interests	-	-	-	-	-	-	(5,622)	(5,622)
Balance at 31 December 2018	600,000	180,000	668,577	(26,583)	(6,048)	1,415,946	208,169	1,624,115
Net (loss) income for the year	-	-	(138,809)	-	-	(138,809)	9,099	(129,710)
Other comprehensive income	-	-	3,434	154	(1,398)	2,190	(174)	2,016
Total comprehensive income	-	-	(135,375)	154	(1,398)	(136,619)	8,925	(127,694)
Reclassification to income on disposal of discontinued operations (note 14)	-	-	-	(560)	-	(560)	-	(560)
Movement in non-controlling interests	-	-	-	-	-	-	(16,026)	(16,026)
Balance at 31 December 2019	**600,000**	**180,000**	**533,202**	**(26,989)**	**(7,446)**	**1,278,767**	**201,068**	**1,479,835**

The attached notes 1 to 45 form part of these consolidated financial statements.

Zamil Industrial Investment Company (A Saudi Joint Stock Company) and its Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2019

	2019	*2018*
	SR'000	*SR'000*
OPERATING ACTIVITIES		
Loss before zakat and income tax from continuing operations	**(85,385)**	(66,027)
Loss before zakat and income tax from discontinued operations	**(13,997)**	(54,328)
Loss before zakat and income tax	**(99,382)**	(120,355)
Adjustments to reconcile income before zakat and income tax to net cash flows:		
Depreciation	**114,923**	119,143
Depreciation of right-of-use assets	**22,110**	-
Amortisation of other intangible assets	**-**	695
Provision for employees' defined benefit liabilities	**31,639**	34,465
Impairment loss reversal on non-current assets	**(34,584)**	(47,967)
Finance costs	**121,379**	103,211
Gains on disposal of property, plant and equipment	**(5,162)**	(132)
Share in results of associates and a joint venture	**(9,195)**	3,964
Loss on disposal of discontinued operations	**13,997**	54,328
	155,725	147,352
Working capital adjustments:		
Inventories	**105,376**	(96,210)
Accounts receivable	**145,198**	(93,876)
Contract assets	**(81,387)**	(55,924)
Advances, other receivables and prepayments	**4,300**	(23,774)
Net investment in finance lease	**22,601**	21,663
Accounts payable	**(62,989)**	90,647
Accruals and provisions	**29,142**	(55,352)
Contract liabilities	**1,678**	42,827
Cash from (used in) operations	**319,644**	(22,647)
Financial charges paid	**(99,559)**	(91,943)
Zakat and income tax paid	**(25,867)**	(18,598)
Employees' defined benefit liabilities paid	**(52,253)**	(100,903)
Net cash from (used in) operating activities	**141,965**	(234,091)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(28,676)**	(35,392)
Proceeds from disposal of property, plant and equipment	**9,053**	699
Proceeds from disposal of discontinued operations	**-**	13,280
Proceeds from disposal of equity instruments at fair value through other comprehensive income	**-**	12,504
Payments against liabilities assumed under disposal of discontinued operations	**-**	(28,225)
Additions to other intangible assets	**-**	(150)
Net cash used in investing activities	**(19,623)**	(37,284)

The attached notes 1 to 45 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
For the year ended 31 December 2019

	2019 SR'000	2018 SR'000
FINANCING ACTIVITIES		
Net movement in short term loans	**(145,074)**	293,514
Net movement in term loans	**107,608**	(21,800)
Payments against lease liabilities	**(24,712)**	-
Dividends paid	**-**	(60,000)
Movement in non-controlling interests	**(14,700)**	(5,622)
Net cash (used in) from financing activities	**(76,878)**	206,092
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**45,464**	(65,283)
Cash and cash equivalents at the beginning of the year	**152,457**	215,524
Movement in foreign currency translation reserve, net	**(669)**	2,216
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**197,252**	152,457
NON-CASH TRANSACTIONS:		
Net amounts receivable settled against disposal of discontinued operations	**454**	14,446
Amount of liabilities assumed by the Group for discontinued operations included in accruals and provisions	**-**	31,254
Amounts receivable against disposal of equity instruments at fair value through other comprehensive income	**-**	3,983
Increase in impairment loss against accounts receivable on adoption of IFRS 9	**-**	17,121
Adjustment to contract assets on adoption of IFRS 15	**-**	3,967
Remeasurement gains (losses) on employees' defined benefit liabilities	**3,067**	(9,498)
Reclassification of exchange difference on disposal of discontinued operations	**560**	2,220
Derecognition of accounts receivable on liquidation of subsidiaries	**1,423**	-
Derecognition of other receivable on liquidation of subsidiaries	**1,327**	-
Derecognition of non-controlling interests on liquidation of subsidiaries	**1,326**	-
Adjustment of cash held for liquidated subsidiaries against accounts payable	**1,313**	-
Recognition of right-of-use assets on first time adoption of IFRS 16	**131,027**	-
Recognition of lease liabilities on first time adoption of IFRS 16	**119,567**	-
Derecognition of prepayments on first time adoption of IFRS 16	**(11,460)**	-
Derecognition of other intangible assets on first time adoption of IFRS 16	**5,030**	-
Transfer of leasehold land to right-of-use assets on first time adoption of IFRS 16	**2,665**	-
Exchange differences on property, plant and equipment	**(416)**	1,176
Exchange differences on deferred tax assets	**(392)**	121
Exchange differences on zakat and income tax provision	**(15)**	(151)
Share in other comprehensive income of an associate	**(193)**	480

The attached notes 1 to 45 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

Zamil Industrial Investment Company ("the Company") was converted to a Saudi Joint Stock Company in accordance with the Ministerial Resolution number 407 dated 14 Rabi' I 1419 H (corresponding to 9 July 1998). Prior to that the Company was operating as a limited liability company under the name of Zamil Steel Buildings Company Limited. The Company is registered in the Kingdom of Saudi Arabia under Commercial Registration number 2050004215 dated 19 Ramadan 1396 H (corresponding to 14 September 1976) with the following branch in the Kingdom of Saudi Arabia:

Commercial registration number	*Date*	*Location*
2050099363	8 Jumada' II 1435H	Dammam

The Company has investment in the following subsidiaries:

	Effective ownership percentage	
	2019	*2018*
Zamil Steel Holding Company Limited - Saudi Arabia	**100%**	100%
- Zamil Steel Pre-Engineered Buildings Company Limited - Saudi Arabia	**100%**	100%
- Zamil Structural Steel Company Limited - Saudi Arabia	**100%**	100%
- Zamil Towers & Galvanizing Company - Saudi Arabia	**100%**	100%
- Zamil Process Equipment Company Limited - Saudi Arabia	**100%**	100%
- Building Component Solutions Company Limited - Saudi Arabia	**100%**	100%
- Zamil Steel Construction Company Limited - Saudi Arabia	**100%**	100%
- Zamil Inspection & Maintenance of Industrial Projects Company Limited - Saudi Arabia	**100%**	100%
- Metallic Construction and Contracting Company Limited - Egypt	**100%**	100%
Zamil Air Conditioners Holding Company Limited - Saudi Arabia	**100%**	100%
- Zamil Air Conditioners & Home Appliances Company Limited - Saudi Arabia	**100%**	100%
- Zamil Central Air Conditioners Company Limited - Saudi Arabia	**100%**	100%
- Zamil Air Conditioning & Refrigeration Services Company Limited - Saudi Arabia	**100%**	100%
- Ikhtebar Company Limited - Saudi Arabia	**100%**	100%
- Eastern District Cooling Company Limited - Saudi Arabia	**100%**	100%
- Zamil Energy Services Company Limited - Saudi Arabia	**100%**	100%
- Zamil Air Conditioning and Refrigeration Services Company W.L.L - Bahrain	**100%**	100%
Arabian Stonewool Insulation Company - Saudi Arabia	**100%**	100%
- Second Insulation Company Limited - Saudi Arabia	**100%**	100%
- Gulf Insulation Group - Saudi Arabia	**51%**	51%
- Saudi Preinsulated Pipes Industries - Saudi Arabia	**51%**	51%
Zamil Steel Building Company - Egypt	**100%**	100%
Zamil Steel Buildings (Shanghai) Company Limited - China	**100%**	100%
Cooling Europe Holdings GmbH - Austria (note 14)	**-**	100%
Zamil Steel Buildings India Private Limited - India	**100%**	100%
Zamil Steel Engineering India Private Limited - India	**100%**	100%
Zamil Industrial Investment Company - UAE	**100%**	100%
Zamil Steel Industries Abu Dhabi (LLC) - UAE	**100%**	100%
Zamil Structural Steel Company - Egypt	**100%**	100%
Zamil Construction India Private Limited - India	**100%**	100%
Zamil Information Technology Global Private Limited - India	**100%**	100%
Zamil Higher Institute for Industrial Training - Saudi Arabia	**100%**	100%
Zamil Air Conditioners India Private Limited - India	**100%**	100%
Saudi Central Energy Company Limited - Saudi Arabia	**100%**	100%
Zamil Industrial Investment Company Asia Pte. Limited - Singapore	**100%**	100%
Zamil Steel Buildings Vietnam Company Limited - Vietnam	**92.27%**	92.27%
Zamil Hudson Company Limited - Saudi Arabia (note 14)	**-**	50%
Petro-Chem Zamil Company Limited - Saudi Arabia (note 14)	**-**	50%

1 CORPORATE INFORMATION (continued)

The Company and its subsidiaries listed above (collectively referred to as the "Group") are engaged in design and engineering, manufacturing and fabrication of construction materials, pre-engineering steel buildings, steel structures, air conditions and climate control systems for commercial, industrial and residential applications, telecom and broadcasting towers, process equipment, fiberglass, rockwool and engineering plastic foam insulation, and solar power projects.

The consolidated financial statements of the Group as of 31 December 2019 were authorised for issuance in accordance with the Board of Directors' resolution on 22 March 2020 (corresponding to 27 Rajab 1441H).

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) and other standards and pronouncements that are endorsed in the Kingdom of Saudi Arabia (“KSA’) by Saudi Organization for Certified Public Accountants (“SOCPA”) (collectively referred to as “IFRS as endorsed in KSA”).

Basis of measurement

These consolidated financial statements are prepared using historical cost convention except for the remeasurement of equity instruments at fair value through other comprehensive income, using the accrual basis of accounting. For employees and other post-employment benefits, actuarial present value calculation is used.

These consolidated financial statements are presented in Saudi Riyals (“SR”) which is also the functional currency of the Group. All values are rounded to the nearest thousands (“SR ‘000”), except when otherwise indicated.

Basis of consolidation

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group’s voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Income and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)
A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in consolidated statement of income. Any investment retained is recognised at fair value.

Non-controlling interest represents the portion of profit or loss and net assets that are not held by the Group and are presented separately in the consolidated statement of financial position and within shareholders' equity in the consolidated statement of financial position, separately from the equity attributable to the shareholders of the Company.

Property, plant and equipment/depreciation
Construction in progress, property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in consolidated statement of income as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

- Buildings on leasehold land	20 to 40 years
- Machinery	5 to 20 years
- Furniture, fixtures and equipment	3 to 5 years
- Motor vehicles	3 years

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income when the asset is derecognised. The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Intangible assets/amortisation
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in consolidated statement of income in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets/amortisation (continued)
Costs which have a long term future benefit are treated as other intangible assets and are amortized over the estimated period of benefit.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised.

Investments in associates and a joint venture
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investments in its associate and joint venture are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated statement of income reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture. The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of income outside operating profit and represents profit or loss after tax and noncontrolling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss as 'Share of profit of an associate and a joint venture' in the consolidated statement of income. Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of income.

Net investment in finance lease
Where the Group determines a long term cooling water arrangement to be or to contain a lease and where the Group transfers substantially all the risks and benefits incidental to ownership of the leased item, the arrangement is considered as a finance lease. A finance lease is presented as net investment in finance lease and is recognised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments received are apportioned between finance income and the reduction of the net investment in finance lease so as to achieve a constant rate of commission on the remaining balance of the asset.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification, as described below:

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets at amortised cost includes trade and certain other receivables.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its non-listed equity investments under this category.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)
Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets
The Group recognises an allowance for expected credit losses (ECLs) for its trade receivables and contract assets. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Business combination and goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognised in the consolidated statement of income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination and goodwill (continued)
Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the consolidated statement of income.

Impairment of non-financial assets
The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the consolidated statement of income in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill at each reporting date.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories
Inventories are stated at the lower of cost and net realizable value. Costs are those expenses incurred in bringing each product to its present location and condition and is calculated on the following basis:

Raw materials	- purchase cost on a weighted average basis.
Work in progress and finished goods	- cost of direct materials and labour plus attributable overheads based on a normal level of activity.
Goods in transits	- cost of direct materials which are under shipment and for which risks and rewards have been passed to the company and are stated at cost.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand, bank balances and time deposits with original maturity of three-months or less from the acquisition date which are subject to an insignificant risk of changes in value.

Statutory reserve
As required by Saudi Arabian Regulations for Companies, the Company must transfer 10% of its income to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 30% of the share capital. The reserve is not available for distribution.

Financial liabilities
Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or payables, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings
This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the consolidated statement of income when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of income. This category generally applies to interest-bearing loans and borrowings.

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of income.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' defined benefit liabilities
The Group operates a non-funded employee end-of-service benefit plan, which is classified as defined benefit obligation under IAS 19 'Employee Benefits'. A defined benefit plan is a plan which is not a defined contribution plan. The liability recognized in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets at that date. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting estimated future cash outflows using market yields at the end of the reporting period of high quality corporate bonds that have terms to maturity approximating to the estimated term of the post employment benefit obligations. Actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments are recognized in equity through other comprehensive income in the period in which they arise.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Liabilities which are probable, they are recorded in the consolidated statement of financial position under accounts payable and accruals. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Zakat and income tax
Zakat and income tax
Zakat is provided for the Company and for subsidiaries operate inside the Kingdom of Saudi Arabia in accordance with Regulations of the General Authority of Zakat and Tax (GAZT) prevailing in the Kingdom of Saudi Arabia. Income tax is provided for in accordance with fiscal authorities in which the Company's subsidiaries operate outside the Kingdom of Saudi Arabia. Provision for zakat and income tax is charged to the consolidated statement of income.

Deferred tax
Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Revenue recognition
Revenue from contracts with customers
Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

a) Sale of goods
Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. The normal credit term is 30 to 90 days upon delivery. The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of equipment, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

In general the contracts for the sale of goods do not provide customers with a right of return and volume rebates. Accordingly, the application of the constraint on variable consideration did not have any impact on the revenue recognised by the Group.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)
a) Sale of goods (continued)
The Group provides normal warranty provisions for general repairs for one to five years on its certain products, in line with industry practice. A liability for potential warranty claims is recognised at the time the product is sold. The Group does not provide any extended warranties or maintenance contracts to its customers.

Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

b) Rendering of services
The Group provides installation, maintenance and engineering services that are either sold separately or bundled together with the sale of equipment to a customer. These services can be obtained from other providers and do not significantly customise or modify the equipment.

Contracts for bundled sales of equipment and related services are comprised of two performance obligations because the promises to transfer equipment and provide maintenance or installation services are capable of being distinct and separately identifiable. Accordingly, the Group allocates the transaction price based on the relative stand-alone selling prices of the equipment and maintenance or installation services.

The Group recognises revenue from above services at a point in time, generally upon completion of the service or delivery of the equipment.

c) Revenue from long-term contracts
The Group has determined that for its long-term contracts for turnkey projects in its steel and air conditioner segments and for made-to-order equipment in its steel segment, the customer controls all of the work in progress as the project progresses and equipment is manufactured. This is because under those contracts the works are performed and equipment are made to a customer's specification and if a contract is terminated by the customer, then the Group is entitled to reimbursement of the costs incurred to date, including a reasonable margin.

At the time of entering into a contract, the Group identifies the performance obligations attached to each contract. For this purpose, the Group evaluates the contractual terms and its customary business practices to identify whether there are distinct performance obligations within each contract. The Group determines the transaction price of each contract in order to identify the transaction price of each aforementioned performance obligations as the amount of consideration to which the Group expects to be entitled in exchange for transferring promised services to a customer. Having determined the transaction price of the contract, the Group allocates the transaction price to each performance obligation.

The Group recognises revenue upon the satisfaction of performance obligations attached to contracts, which occurs when service obligations mentioned in the contract are met and accepted by the customer in form of acceptance of works completed. The Group recognises revenue from such long-term contracts over time, using an input method to measure progress towards complete satisfaction of the performance obligation by reference to the percentage of completion method. In applying the percentage of completion method, revenue recognised corresponds to the total contract revenue multiplied by the actual completion rate based on the proportion of total contract costs incurred to date and the estimated cost to complete.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

c) Revenue from long-term contracts (continued)

The Group receives advances from customers for its long-term projects. Generally, such advances are not significant to the contract consideration and received in the normal course of business at the start of the project. The Group does not adjust the promised amount of consideration for the effects of a significant financing component as the Group has determined that such advances are received for reasons other than financing the projects. These advances are adjusted against progress billings raised to the customer in accordance with the terms of the contract.

The value of work completed but not billed at the date of consolidated statement of financial position is classified as "contract assets" under current assets in the consolidated statement of financial position. Amounts billed in excess of work completed and advances received at the consolidated statement of financial position date is classified as "contract liabilities" under current liabilities in the consolidated statement of financial position. Invoices are issued according to contractual terms and are usually payable within 30 to 90 days.

Cost to obtain a contract

The Group pays sales commission to its employees and sales agents for certain contracts for sales of goods and services. The Group has elected to apply the optional practical expedient for costs to obtain a contract which allows the Group to immediately expense sales commissions because the amortisation period of the asset that the Group otherwise would have used is one year or less.

Finance income

Finance income, including income arising from finance leases and other financial instruments, is recognised using the effective interest method.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Accounts receivables

A receivable represents the Group’s right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Expenses

Expenses are recognised when incurred based on the accrual basis of accounting. Selling and distribution expenses are those that specifically relate to salesmen, sales department, warranties, warehousing and delivery vehicles. All other expenses related to main operations are allocated on a consistent basis to direct costs and general and administration expenses in accordance with allocation factors determined as appropriate by the Group.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies
The Group's consolidated financial statements are presented in Saudi Riyal, which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to consolidated statement of income reflects the amount that arises from using this method.

Transaction and balances
Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

All differences arising on settlement or translation of monetary items are taken to the consolidated statement of income with the exception of differences on foreign monetary items that form part of a net investment in a foreign operation. These are recognised in OCI until the disposal of the net investment, at which time they are reclassified to consolidated statement of income.
Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of a gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or consolidated statement of income, respectively).

Group companies
On consolidation, the assets and liabilities of foreign operations are translated into Saudi Riyal at the rate of exchange prevailing at the reporting date and their statements of income are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to consolidated statement of income.

Current versus non-current classification
The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement
The Group measures financial instruments such as available for sale investments at fair value at each statement of financial position date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. For unquoted equity investments, fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows and other relevant factors. Cost is considered to be the fair value where there is no reliable fair value information available for such investments.

Non-current assets held for sale and discontinued operations
The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statement of financial position.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets held for sale and discontinued operations (continued)
A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or
- Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated statement of income.

3 CHANGES TO THE GROUP'S ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective.

The Group applies, for the first time, IFRS 16 Leases that requires restatement of previous consolidated financial statements. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The nature and effect of these changes are disclosed below:

IFRS 16 Leases
IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. Since, the Group recognised the right-of-use assets at the amount equal to the lease liabilities, adjusted by the amount of any amounts paid to acquire lease rights to use plots of land and buildings and any prepaid lease payments relating to that lease recognised in the consolidated statement of financial position immediately before the date of initial application. Therefore, no adjustments were required in the retained earnings at the date of initial application.

The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

3 CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

IFRS 16 Leases (continued)

The effect of adoption of IFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows:

	SR'000
Assets	
Right-of-use assets	**131,027**
Prepayments	**(11,460)**
Other intangible assets (note 18)	**5,030**
Leasehold land (note 16)	**2,665**
Total assets	**127,262**
Liabilities	
Lease liabilities	**119,567**
Total liabilities	**119,567**

Gross lease liabilities at 1 January 2019 have been discounted using a weighted average incremental borrowing rate of 5.43%.

The Group has lease contracts for plots of land and buildings. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rents were recognised under prepayments.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

Leases previously classified as finance leases
The Group did not have any liabilities recognised as finance lease liabilities at the date of initial application of IFRS 16.

Leases previously accounted for as operating leases
The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

3 CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

IFRS 16 Leases (continued)

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease
- The election, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component

Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below SR 18,750). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

4 SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of asset or liability affected in future periods.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty, and critical judgments in applying accounting policies (that have the most significant effect on the amount recognized in the consolidated financial statements) includes:

Impairment of non-financial assets
An impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Valuation of defined benefit obligations
The cost of the defined benefit pension plan and other post-employment benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and other assumptions. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Impairment of accounts receivables and contract assets
The Group uses a provision matrix to calculate expected credit losses (ECLs) for accounts receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed loss rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in a particular sector, the historical loss rates are adjusted. At every reporting date, the historical observed loss rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed loss rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual loss in the future.

Estimated cost to complete
At each reporting date, the Group is required to estimate costs to complete on fixed-price contracts. Estimating costs to complete on such contracts requires the Group to make estimates of future costs to be incurred, based on work to be performed beyond the reporting date. This estimate will impact contract revenues, contract costs and contract assets. Project costs to complete estimate is based on the managements best estimates at the reporting date after considering all the available and known factors.

4 SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS (continued)

Leases - Estimating the incremental borrowing rate
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Determining the lease term of contracts with renewal and termination options – Group as lessee
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

Fair value measurement of financial instruments
When the fair values of financial assets recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

Useful lives of property, plant and equipment
The management determines the estimated useful lives of its equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

Amendments to IFRS 3: Definition of a Business
In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material
In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

6 REVENUE FROM CONTRACTS WITH CUSTOMERS

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	2019	*2018*
	SR '000	*SR '000*
Sale of goods	**2,921,434**	2,958,485
Rendering of services	**243,373**	384,997
Revenue from long-term contracts	**1,098,442**	954,252
Total revenue from contracts with customers	**4,263,249**	4,297,734

Reconciliation of the Group's disaggregate revenue for its reportable segments and timing of revenue recognition is disclosed in note 40.

Contract balances

Group's contract balances comprise of following:

	2019	*2018*
	SR '000	*SR '000*
Accounts receivable (note 24)	**1,895,662**	2,043,156
Contract assets (note 25)	**494,756**	413,369
Contract liabilities (note 36)	**294,028**	292,350

Accounts receivable are non-interest bearing and are generally on terms of 30 to 90 days.

Contract assets are initially recognised for revenue earned from its long-term contracts in its steel and air conditioner segment as receipt of consideration is conditional on successful completion of obligations mentioned in the contract and accepted by the customer in form of acceptance of works completed. Upon completion of contract obligation and acceptance by the customer, the amounts recognised as contract assets are reclassified to accounts receivable.

Contract liabilities include advances received from customer and billings in excess of value of work executed against its long-term contracts.

7 COST OF SALES

	2019	*2018*
	SR'000	*SR'000*
Cost of inventories recognised as expense	**1,677,883**	1,697,044
Employees' and labour costs	**490,469**	504,758
Sub-contracting costs	**202,270**	145,710
Depreciation	**90,140**	88,331
Depreciation of right-of-use assets (note 17)	**5,091**	-
Others direct costs	**245,238**	335,002
	2,711,091	2,770,845

8 CONTRACTS COST

	2019	*2018*
	SR'000	*SR'000*
Sub-contracting costs	**413,448**	245,476
Materials consumed	**371,426**	413,208
Employees' and labour costs	**144,593**	129,710
Depreciation	**9,876**	8,885
Others direct costs	**29,845**	30,155
	969,188	827,434

9 SELLING AND DISTRIBUTION EXPENSES

	2019	*2018*
	SR'000	*SR'000*
Employees' costs	**110,951**	95,427
Transportation	**45,380**	55,205
Warranties	**19,964**	18,831
Depreciation of right-of-use assets (note 17)	**8,580**	-
Rent and utilities	**7,500**	17,117
Advertising and sales promotion	**5,626**	8,568
Business travel	**4,816**	4,410
Support services	**3,415**	3,829
Depreciation	**2,783**	3,357
Communication and IT services	**1,671**	1,691
Repairs and maintenance	**781**	881
Others	**12,129**	13,519
	223,596	222,835

10 GENERAL AND ADMINISTRATION EXPENSES

	2019	*2018*
	SR'000	*SR'000*
Employees' costs	**273,517**	268,764
Provision for expected credit losses	**22,311**	124,087
Communication and IT services	**20,071**	18,785
Depreciation	**12,124**	18,570
Rent and utilities	**9,862**	11,953
Depreciation of right-of-use assets (note 17)	**8,439**	-
Professional fees	**8,305**	8,029
Support services	**8,100**	8,681
Business travel	**5,930**	6,293
Repairs and maintenance	**5,722**	8,131
Office supplies	**3,402**	3,242
Amortisation	**-**	695
Others	**25,893**	28,380
	403,676	505,610

11 OTHER INCOME, NET

	2019	*2018*
	SR'000	*SR'000*
Foreign currency exchange gains (losses)	**7,553**	(2,801)
Gains on disposal of property, plant and equipment	**5,162**	132
Others	**8,825**	8,925
	21,540	6,256

12 FINANCE COSTS

	2019	*2018*
	SR'000	*SR'000*
Interest on debts and borrowings	**99,559**	91,943
Interest cost on employees' defined benefit obligation (note 32)	**11,034**	8,955
Interest on lease liabilities (note 17)	**6,091**	-
Amortisation of loan upfront fees (note 31 and 35)	**4,695**	2,313
	121,379	103,211

13 IMPAIRMENT LOSS REVERSAL ON NON-CURRENT ASSETS, NET

	2019	*2018*
	SR'000	*SR'000*
Reversal of impairment loss on property, plant and equipment (note 16)	**34,584**	14,117
Reversal of impairment loss on investment in an associate (note 19)	**-**	33,850
	34,584	47,967

14 DISCONTINUED OPERATIONS

14.1 During the year, the Group's investment in Zamil Hudson Company Limited, Petro-Chem Zamil Company Limited registered in Saudi Arabia and Cooling Europe Holdings GmbH - Austria (subsidiaries) were fully liquidated. Legal formalities with regard to liquidation were completed during the year and a net gain of SR 449 thousands has been recognised in the consolidated statement of income on liquidation.

	2019	*2018*
	SR '000	*SR '000*
Loss on liquidation of Group's share in the investee companies	**111**	-
Cumulative exchange gain reclassified from foreign currency translation reserve to consolidated statement of income on disposal	**(560)**	-
	(449)	-

14.2 During 2018, the Group's investment in Geoclima S.r.l. Company (an associate) registered in Italy within air conditioner segment was fully disposed off following the Group's management plan to sell its share in the investee company. Legal formalities with regard to disposal were completed during 2018 and a net loss of SR 524 thousands has been recognised in the consolidated statement of income on disposal.

	2019	*2018*
	SR '000	*SR '000*
Loss on disposal of Group's share in the investee company	**-**	2,161
Cumulative exchange gain reclassified from foreign currency translation reserve to consolidated statement of income on disposal	**-**	(1,637)
	-	524

14 DISCONTINUED OPERATIONS (continued)

14.3 During 2018, the Group has entered into a share purchase agreement with other shareholders for disposal of its share in ZNA Infra Private Limited, India (an associate) with a book value of SR 9,354 thousands. In accordance with the share transfer arrangement agreed among the shareholders, the Group assumed liabilities of the investee amounting to SR 21,739 thousands to be settled by it without any reimbursement from the investee or other shareholders. Further, the Group agreed to settle the liabilities of investee amounting to SR 37,740 thousands with a repayment of such amounts from the investee to the Group. Such amounts have been booked as receivable from the investee and are included in the amounts due from related parties (note 38). During the year, a provision of SR 14,446 thousands (2018: SR 23,294 thousands) was recognised in the consolidated statement of income against the above receivable amount. Legal formalities with regard to disposal arrangement are in process and expected to be completed during year 2020. In view of the above arrangement, a net loss of SR 14,446 thousands (2018: SR 53,804 thousands) has been recognised in the consolidated statement of income.

	2019 ***SR '000***	*2018* *SR '000*
Loss on disposal of Group's share in the investee company	**-**	31,093
Provision for impairment of amounts due from investee	**14,446**	23,294
Cumulative exchange gain reclassified from foreign currency translation reserve to consolidated statement of income on disposal	**-**	(583)
	14,446	53,804

15 EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the net income for the year attributable to the shareholders of the parent company by the weighted average number of outstanding shares during the year as follows:

	2019	*2018*
Net loss for the period attributable to the shareholders of the parent company (SR '000):		
Continuing operations	**(124,812)**	(85,505)
Discontinued operations	**(13,997)**	(54,328)
	(138,809)	(139,833)
Weighted average number of outstanding shares during the year (share *'000*)	**60,000**	60,000
Earning per share from net loss		
Basic and diluted earnings per share attributable to the shareholders of the parent company	**(2.31)**	(2.33)
Earning per share for continuing operations		
Basic and diluted earnings per share attributable to the shareholders of the parent company	**(2.08)**	(1.43)
Earning per share for discontinued operations		
Basic and diluted earnings per share attributable to the shareholders of the parent company	**(0.23)**	(0.91)

16 PROPERTY, PLANT AND EQUIPMENT

	Freehold land	*Buildings on leasehold land*	*Machinery*	*Furniture, fixtures and equipment*	*Motor vehicles*	*Capital work-in-progress*	***Total***
	SR '000	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*	***SR '000***
Cost:							
At 1 January 2018	113,552	929,473	1,626,363	251,793	103,107	54,965	**3,079,253**
Additions	-	1,703	18,413	6,825	6,633	1,818	**35,392**
Transfer	-	943	10,655	1,022	-	(12,620)	**-**
Disposal	(237)	(596)	(12,294)	(4,712)	(3,095)	-	**(20,934)**
Foreign currency translation	(505)	(4,047)	(7,371)	(3,870)	(71)	(28)	**(15,892)**
At 31 December 2018	112,810	927,476	1,635,766	251,058	106,574	44,135	**3,077,819**
Additions	-	3,933	10,922	4,215	3,425	6,181	**28,676**
Transfer	-	16,182	31,109	735	-	(48,026)	**-**
Disposal	-	(1,612)	(38,443)	(18,197)	(2,569)	(838)	**(61,659)**
Transferred to right-of-use assets	-	(3,076)	-	-	-	-	**(3,076)**
Foreign currency translation	108	(41)	(177)	283	255	3	**431**
At 31 December 2019	**112,918**	**942,862**	**1,639,177**	**238,094**	**107,685**	**1,455**	**3,042,191**
Depreciation and impairment:							
At 1 January 2018	15,789	499,381	1,185,511	203,095	85,589	-	**1,989,365**
Charge for the year	-	38,072	54,864	14,824	11,383	-	**119,143**
Reversal of impairment losses	-	(7,252)	(6,865)	-	-	-	**(14,117)**
Disposal	(237)	(465)	(12,111)	(4,492)	(3,062)	-	**(20,367)**
Foreign currency translation	(419)	(3,974)	(7,171)	(3,083)	(69)	-	**(14,716)**
At 31 December 2018	15,133	525,762	1,214,228	210,344	93,841	-	**2,059,308**
Charge for the year	-	37,232	59,075	13,649	4,967	-	**114,923**
Reversal of impairment losses	-	(22,179)	(9,205)	(3,194)	(6)	-	**(34,584)**
Disposal	-	(1,612)	(36,485)	(17,132)	(2,539)	-	**(57,768)**
Transferred to right-of-use assets	-	(411)	-	-	-	-	**(411)**
Foreign currency translation	(106)	(98)	(231)	221	229	-	**15**
At 31 December 2019	**15,027**	**538,694**	**1,227,382**	**203,888**	**96,492**	**-**	**2,081,483**
Net book amounts:							
At 31 December 2019	**97,891**	**404,168**	**411,795**	**34,206**	**11,193**	**1,455**	**960,708**
At 31 December 2018	97,677	401,714	421,538	40,714	12,733	44,135	1,018,511

16 PROPERTY, PLANT AND EQUIPMENT (continued)

At 1 January 2016, the Group determined that the recoverable amount of its property, plant and equipment in a subsidiary, Zamil Steel Buildings India Private Limited, which is considered a CGU, was less than its carrying amount and accordingly an impairment loss of SR 59,590 thousands was recognised.

As a result of increase in sale volumes and resumption of activities of the subsidiary to normal operational level, the Group determined that the recoverable amount of its CGU, has exceeded its carrying amount. Accordingly, an impairment loss of SR 40,184 thousands was reversed during the current period. The recoverable amount as at 31 December 2019 was based on value in use and was determined at the level of the CGU. In determining value in use for the CGU, the cash flows were discounted at a rate of 18.82% on a pre-tax basis.

The Group determined that the recoverable amount of property, plant and equipment of a subsidiary, Building Component Solutions Limited, which is considered a cash generating unit (CGU), was less than its carrying amount. The recoverable amount was based on the CGU's value in use using a pre-tax discount rate of 13.65%. This resulted in an impairment loss of SR 5,600 thousands during the current period. The amount has been recognised in the consolidated statement of income.

During 2018, as a result of increase in sale volumes and resumption of activities of the subsidiary to normal operational level, the Group determined that the recoverable amount of its CGU, has exceeded its carrying amount. Accordingly, an impairment loss of SR 14,117 thousands was reversed. The recoverable amount as at 31 December 2018 was based on value in use and was determined at the level of the CGU. In determining value in use for the CGU, the cash flows were discounted at a rate of 12.46% on a pre-tax basis.

In prior periods, the Group determined that the recoverable amount of its property, plant and equipment in a subsidiary, which is considered a CGU, was less than its carrying amount and accordingly an impairment loss of SR 25,449 thousands was recognised.

The majority of the buildings are constructed on plots of land leased from The Saudi Industrial Property Authority (MODON) in Riyadh and first and second industrial city - Dammam for periods range from 4 to 25 years with various commencing dates range from the years 1993 to 2019. The Group has right to renew these lease agreements.

Capital work-in-progress represents mainly the cost incurred in respect of new building, expansion, upgrading of production facilities, new production line and machinery and equipment acquired for general modernisation.

Certain property, plant and equipment are mortgaged as a security against the loans obtained from the financial institutions (note 31 and 35).

17 LEASES

The Group has lease contracts for plots of land and buildings used in its operations. Leases of plots of land and buildings generally have lease terms between 5 and 20 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets and some contracts require the Group to maintain certain financial ratios.

The Group also has certain leases with lease terms of 12 months or with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Plots of land	***Buildings***	***Total***
	SR '000	***SR '000***	***SR '000***
As at 1 January 2019	**93,204**	**45,518**	**138,722**
Additions	**2,574**	**-**	**2,574**
Depreciation expense	**(9,015)**	**(13,095)**	**(22,110)**
As at 31 December 2019	**86,763**	**32,423**	**119,186**

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period:

	2019
	SR'000
As at 1 January 2019	**119,567**
Additions	**2,574**
Interest expense	**6,091**
Payments	**(24,712)**
As at 31 December 2019	**103,520**

	2019
	SR'000
Analysed as:	
Current	**22,886**
Non-current	**80,634**
	103,520

The maturity analysis of lease liabilities are disclosed in note 41.
The following are the amounts recognised in profit or loss:

	2019
	SR'000
Depreciation expense of right-of-use assets	**22,110**
Interest expense on lease liabilities	**6,091**
Total amount recognised in profit or loss	**28,201**

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised.

18 OTHER INTANGIBLE ASSETS

	SR'000
Cost:	
At 1 January 2018	10,873
Additions	150
At 31 December 2018	11,023
Derecognition of other intangible assets on first time adoption of IFRS 16 (note 3)	(11,023)
At 31 December 2019	**-**
Accumulated amortisation:	
At 1 January 2018	5,298
Charge for the year	695
At 31 December 2018	5,993
Derecognition of other intangible assets on first time adoption of IFRS 16 (note 3)	(5,993)
At 31 December 2019	**-**
Net carrying value	
At 31 December 2019	**-**
At 31 December 2018	5,030

Other intangible assets mainly represented amounts paid to acquire lease rights to use plots of land in Vietnam and are amortised over a period of 20 to 30 years. The amount was recognised as part of the right-of-use assets on first time adoption of IFRS 16.

19 INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE

Carrying values of the Group's share for investment in associates and a joint venture were as follows:

	Percentage of ownership			
	2019	*2018*	***2019***	*2018*
			SR'000	*SR'000*
Associates				
Rabiah Nasser and Zamil Concrete Industries Company Limited - Saudi Arabia ("RANCO") (note 19.1)	**50%**	50%	**68,793**	56,296
Energy Central Company B.S.C. - Bahrain (note 19.2)	**-**	25%	**-**	14,900
IIB Paper Company Limited - Bahrain (note 19.3)	**20.83%**	20.83%	**-**	3,052
			68,793	74,248
Joint venture				
Middle East Air Conditioners Company Limited (note 19.4)	**51%**	51%	**11,079**	11,136
			11,079	11,136
			79,872	85,384

19 INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE (continued)

The following table illustrates the summarised financial information of the Group's investment in associates:

	RANCO	*Energy Central Company B.S.C. - Bahrain*	*IIB Paper Company Limited - Bahrain*	***Total***
	SR'000	*SR'000*	*SR'000*	***SR'000***
Summarised statement of financial position for associates				
31 December 2019				
Current assets	**209,844**	**-**	**-**	
Non-current assets	**161,833**	**-**	**26**	
Current liabilities	**(200,252)**	**-**	**(894)**	
Non-current liabilities	**(26,188)**	**-**	**-**	
Net assets	**145,237**	**-**	**(868)**	
Proportion of the Group's ownership	**50%**	**0%**	**20.83%**	
Group's share of net assets	**72,619**	**-**	**-**	
Impairment loss / other adjustments	**(3,826)**	**-**	**-**	
Group's carrying amount of the investment	**68,793**	**-**	**-**	**68,793**
31 December 2018				
Current assets	137,197	35,250	4	
Non-current assets	155,919	65,330	15,375	
Current liabilities	(152,652)	(1,570)	(728)	
Non-current liabilities	(87,922)	(340)	-	
Net assets	52,542	98,670	14,651	
Proportion of the Group's ownership	50%	25%	20.83%	
Group's share of net assets	26,271	24,668	3,052	
Impairment loss / other adjustments	30,025	(9,768)	-	
Group's carrying amount of the investment	56,296	14,900	3,052	74,248

19 INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE (continued)

	RANCO	*Energy Central Company B.S.C. - Bahrain*	*IIB Paper Company Limited - Bahrain*	***Total***
	SR'000	*SR'000*	*SR'000*	***SR'000***
Summarised statements of comprehensive income for associates				
31 December 2019				
Revenue	**235,875**	**-**	**-**	
Operating income	**27,051**	**-**	**-**	
Net income (loss) for the year	**24,610**	**-**	**(15,516)**	
Other comprehensive income	**385**	**-**	**-**	
Total comprehensive income for the year	**24,995**	**-**	**(15,516)**	
Group's share of total comprehensive income	**12,498**	**-**	**(3,052)**	**9,446**
31 December 2018				
Revenues	143,912	-	-	
Operating income	3,218	-	-	
Net income (loss) for the year	768	-	(6,707)	
Other comprehensive income	(959)	-	-	
Total comprehensive income for the year	(191)	-	(6,707)	
Group's share of total comprehensive income	**(96)**	**-**	**(1,397)**	(1,493)

19 INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE (continued)

19.1 Rabiah Nasser and Zamil Concrete Industries Company Ltd ("RANCO") which is registered in Saudi Arabia and engaged in the production of concrete products, asphalt and polystyrene. In prior periods, the Group determined that the recoverable amount in its investment in an associate, which is considered a CGU, was less than its carrying amount. The recoverable amount was based on the CGU's value in use using a pre-tax discount rate of 12.4%. Accordingly an impairment loss of SR 61,556 thousands was recognised. During 2018, as the associate's operational activities resumed to normal levels and are expected to continue in the foreseeable future, therefore, the Group determined that the recoverable amount of its CGU, has exceeded its carrying amount. The recoverable amount was based on the CGU's value in use using a pre-tax discount rate of 11.3%. Accordingly, an impairment loss of SR 33,850 thousands was reversed.

19.2 Energy Central Company B.S.C is a closed Joint Stock Company incorporated in the Kingdom of Bahrain. The principal activities of the company are distribution of utility services including district cooling, seawater desalination, waste water treatment, power generation and other related services within the GCC countries. During the year, the Group's investment in Energy Central Company B.S.C was fully disposed off. Legal formalities with regard to disposal were completed during the year.

19.3 IIB Paper Company Limited is registered in Cayman Islands and is engaged in the production of tissue paper. The Group recognised its share in loss for the year up to the carrying value of the investment.

19.4 Middle East Air Conditioners Company Limited is registered in Kingdom of Saudi Arabia and is engaged in sale of air conditioners. Summarised financial information of the joint venture, based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in the consolidated financial statements is set out below:

Summarised statement of financial position for joint venture	***2019*** ***SR'000***	*2018* *SR'000*
Current assets (including bank balances and cash of SR 2.4 million, 2018: SR 6.2 million)	**43,011**	39,590
Non-current assets	**23**	6
Current liabilities (including zakat and income tax provision of SR 0.89 million, 2018: SR 0.34 million)	**(22,483)**	(19,427)
Non-current liabilities	**(132)**	(71)
Net assets	**20,419**	20,098
Proportion of the Group's ownership	**51%**	51%
Group's share of net assets	**10,414**	10,250
Other adjustments	**665**	886
Group's carrying amount of the investment	**11,079**	11,136

Summarised statement of comprehensive income for joint venture

	2019 ***SR'000***	*2018* *SR'000*
Revenues	**40,344**	21,949
Cost of sales	**(33,646)**	(22,642)
Selling and distribution expenses	**(3,270)**	(1,215)
General and administrative expenses	**(2,006)**	(1,143)
Other expenses	**-**	(1,229)
Income (loss) before zakat and income tax	**1,422**	(4,280)
Zakat and income tax	**(896)**	(473)
Total comprehensive income for the year	**526**	(4,753)
Group's share of total comprehensive income for the year	**(58)**	(2,951)

20 EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019	*2018*
	SR'000	*SR'000*
Kinan International For Real Estate Development Company Limited (note 20.1)	**39,140**	40,538

Reconciliation of fair value of unquoted equity shares classified as equity instruments at fair value through other comprehensive income is as follows:

	2019	*2018*
	SR '000	*SR '000*
At the beginning of the year	**40,538**	77,466
Remeasurement recognised in consolidated statement of comprehensive income	**(1,398)**	(6,048)
Sales (note 20.2)	**-**	(30,880)
At the end of the year	**39,140**	40,538

20.1 This investment represents 2.11% share in Kinan International For Real Estate Development Company Limited, an unlisted company which is registered in Saudi Arabia and is engaged in real estate activities.

20.2 During 2018, the Group has disposed off its 61.19% of unquoted share in PLG Photovoltaic Limited with a net book value of SR 30,880 thousands, an unlisted company which is registered in India against a value of SR 16,487 thousands. Accordingly, a loss of SR 14,393 thousands was recognised in retained earnings through the consolidated statement of comprehensive income and the related fair value reserve of SR 10,880 thousands have been transferred to retained earnings.

21 NET INVESTMENT IN FINANCE LEASE

Eastern District Cooling Company ("EDCC"), a subsidiary, entered into an energy performance contract during 2008 with Saudi Iron and Steel Company ("Hadeed") for a period of 20 years. As per the terms stipulated in the agreement it is agreed to design, construct, operate and maintain a District Cooling Plant (DCP) at the premises of Hadeed. At the end of the contract term all the rights, title and interest in the DCP will be transferred to Hadeed for an all-inclusive lump sum payment of SR 53.3 million. During 2013, the construction of DCS was completed and the entire risks and rewards were transferred to Hadeed under finance lease agreement on 1 April 2013.

The net investment in finance lease and the future minimum lease payments are as follows:
a) Net investment in finance lease consists of:

	2019	*2018*
	SR'000	*SR'000*
Gross investments in lease (see (b) below)	**429,057**	466,635
Less: Unearned finance income	**(88,375)**	(103,352)
	340,682	363,283

	2019	*2018*
	SR'000	*SR'000*
Analysed as:		
Net investment in finance lease, current	**23,578**	22,600
Net investment in finance lease, non-current	**317,104**	340,683
	340,682	363,283

21 NET INVESTMENT IN FINANCE LEASE (continued)

b) The future minimum lease payments to be received consists of:

	2019	*2018*
	SR'000	*SR'000*
Within one year	**37,578**	37,578
After one year but not more than five years	**187,888**	187,888
Five years onwards	**203,591**	241,169
	429,057	466,635

22 GOODWILL

During 2011, the Group acquired 51% of the voting shares of Gulf Insulation Group ("GIG"), a company registered in the Kingdom of Saudi Arabia. During 2012, the Group exercised purchase price allocation which is resulting a goodwill of SR 110 million.

During 2014, GIG transferred 51% ownership of its wholly owned subsidiary Saudi Preinsulated Pipes Industries Company Limited ("SPPI") to one of its partner, Second Insulation Company Limited ("SICL"), a wholly owned subsidiary of the Group. Accordingly, the Group performed its annual impairment test in December 2015 considering the allocation of goodwill to GIG and SPPI and performing impairment view on CGUs based on the available information and comparing carrying values to their estimated recoverable amounts based on appropriate method. The goodwill related to SPPI was fully impaired in the year 2015 and accordingly the balance amount relates to goodwill in GIG.

The Group performed its annual impairment test at each reporting date. The recoverable amount of GIG is determined based on a value in use calculation using cash flow projection from financial budgets approved by senior management covering a five-year period. The projected cash flows projections have been updated to reflect the future demands of the products of GIG. The cash flows beyond the five year period are extrapolated using a 2.3% (2018: 2%) growth rate that is the same as the long term average growth rate for the industry in which the GIG operates. The recoverable amount was based on the CGU's value in use using a pre-tax discount rates of 12.3% to 12.5% (2018: 11.7% to 12.9%).

As a result of the analysis, at 31 December 2019 the estimated recoverable amount of CGU exceeded its carrying amount by approximately SR 4.6 million (2018: SR 18 million) and the management did not identify an impairment for this CGU to which goodwill of SR 21 million is allocated.

The calculation of value in use for the CGU is most sensitive to the following assumptions:

- Gross margin
- Discount rates
- Growth rate used to extrapolate cash flows beyond the budget period

Gross margin

Gross margins are based on average values achieved in the three years preceding the start of the budget period. These are increased over the budget period for anticipated efficiency improvements. Decreased demand can lead to a decline in gross margin. A decrease in the gross margin of 0.6% would result in an impairment of the CGU.

Discount rates

Discount rates represent the current market assessment of the risks specific to the cash generating unit, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly-available marked data. A rise in the pre-tax discount rate of 0.7% would result in an impairment.

Growth rate estimates

A long-term growth rate into perpetuity has been determined as the lower of the nominal gross domestic product (GDP) rate for Saudi Arabia where the CGU operates. Management recognises that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. The effect of new entrants is not expected to have an adverse impact on the forecasts, but could yield a reasonably possible alternative to the estimated long-term growth rate of 2.3%. A reduction of 0.1% in the long-term growth rate would result in impairment of the CGU.

23 INVENTORIES

	2019	*2018*
	SR'000	*SR'000*
Raw materials	**773,900**	774,520
Finished goods	**345,921**	425,880
Work in progress	**96,042**	97,921
Goods in transit	**23,528**	46,446
	1,239,391	1,344,767

24 ACCOUNTS RECEIVABLE

	2019	*2018*
	SR'000	*SR'000*
Trade accounts receivable	**1,910,603**	2,087,871
Receivables from related parties (note 38)	**102,706**	95,051
Retentions receivable	**207,664**	171,852
	2,220,973	2,354,774
Less: provision for impairment of receivables	**(325,311)**	(311,618)
	1,895,662	2,043,156

For terms and conditions related to related parties receivables, refer to note 38.

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. Movement in the allowance for expected credit losses of trade receivables is as follows:

	2019	*2018*
	SR'000	*SR'000*
At the beginning of the year	**311,618**	167,630
Provision for expected credit losses - continuing operations	**17,400**	122,044
Provision for expected credit losses - discontinued operations	**14,446**	23,294
Written-off during the year	**(18,267)**	(323)
Exchange differences	**114**	(1,027)
At the end of the year	**325,311**	311,618

Information about the credit exposures on accounts receivable is disclosed in note 41.

25 CONTRACT ASSETS

	2019	*2018*
	SR'000	*SR'000*
Value of the work executed to date	**2,227,713**	1,746,042
Less: Amounts received and receivable as progress billings	**(1,726,018)**	(1,330,645)
	501,695	415,397
Less: provision for expected credit losses	**(6,939)**	(2,028)
	494,756	413,369

Information about the credit exposures on contract assets is disclosed in note 41.

26 ADVANCES, OTHER RECEIVABLES AND PREPAYMENTS

	2019	*2018*
	SR'000	*SR'000*
Advances to suppliers	**60,264**	61,720
Prepaid expenses	**31,670**	50,887
Other receivables	**157,665**	152,752
	249,599	265,359

27 CASH AND CASH EQUIVALENTS

	2019	*2018*
	SR'000	*SR'000*
Bank balances and cash	**171,236**	130,652
Short-term deposits	**26,016**	21,805
	197,252	152,457

The average interest rate on the short-term deposits during the year was 5 to 6.5% per annum (2018: 4 to 5% per annum).

28 SHARE CAPITAL

The authorised, issued and fully paid share capital of the Company is divided into 60 million shares (2018: same) of SR 10 each (2018: same).

29 DIVIDENDS

On 23 May 2018 (corresponding to 8 Ramadan 1439H), the Annual General Assembly approved the payment of a proposed final cash dividends from board of directors for the year 2017 of SR 1 per share (totalling to SR 60 million). Dividends have been fully paid during the prior year. During the year, there was no proposal to distribute any dividends.

30 MATERIAL PARTLY-OWNED SUBSIDIARIES

Financial information of subsidiaries that have material non-controlling interests is provided below:

Proportion of equity interest held by non-controlling interests:

Name	*Country of incorporation*	*2019*	*2018*
Gulf Insulation Group	Kingdom of Saudi Arabia	**49%**	49%

Accumulated balances of material non-controlling interest:

	2019	*2018*
	SR'000	*SR'000*
Gulf Insulation Group	**185,320**	188,265

Income allocated to material non-controlling interest:

	2019	*2018*
	SR'000	*SR'000*
Gulf Insulation Group	**11,772**	11,673

30 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

The summarised financial information of the above subsidiary is provided below. This information is based on amounts before inter-company eliminations.

Summarised statement of income:

	2019	*2018*
	SR'000	*SR'000*
Revenues	**256,881**	262,869
Cost of sales	**(167,288)**	(177,214)
Other operating expenses	**(56,632)**	(59,280)
Other income	**1,515**	901
Finance costs	**(6,659)**	(6,753)
Profit before zakat	**27,817**	20,523
Zakat and income tax	**(5,439)**	(3,484)
Net income for the year	**22,378**	17,039
Other comprehensive income for the year	**362**	(622)
Total comprehensive income for the year	**22,740**	16,417
Attributable to non-controlling interests	**11,772**	11,673
Dividends paid to non-controlling interests	**14,700**	5,622

Summarised statement of financial position:

	2019	*2018*
	SR'000	*SR'000*
Non-current assets	**309,185**	331,703
Current assets	**148,448**	161,031
Non-current liabilities	**(38,079)**	(51,480)
Current liabilities	**(133,675)**	(147,853)
Total Equity	**285,879**	293,401
Attributable to:		
Shareholders of the parent company	**100,559**	105,136
Non-controlling interests	**185,320**	188,265

Summarised cash flow information for year ended:

	2019	*2018*
	SR'000	*SR'000*
Cash flows from operating activities	**49,088**	33,077
Cash from (used in) investing activities	**1,371**	(7,151)
Cash used in financing activities	**(51,373)**	(29,750)
Net decrease in the cash and cash equivalents	**(914)**	(3,824)

31 TERM LOANS

	2019	*2018*
	SR'000	*SR'000*
Saudi Industrial Development Fund ("SIDF")	**195,422**	85,642
	195,422	85,642
Less: SIDF prepaid financial charges	**(3,036)**	(3,205)
	192,386	82,437
Less: Current portion:		
Saudi Industrial Development Fund ("SIDF")	**(47,400)**	(43,703)
	(47,400)	(43,703)
Non-current portion	**144,986**	38,734

During the year, the Group obtained loan facilities of SR 129 million from SIDF to finance a construction of air condition laboratory test facility and to finance the working capital of its subsidiaries. During the prior years, the Group obtained loan facility of SR 140 million from SIDF to finance the construction of a plant.

The loan is secured by a mortgage on the Group's property, plant and equipment (note 16). The loans are repayable in unequal instalments. The loans carry financial charges at prevailing market borrowing rates.

The Group is required to comply with certain covenants which include, among other things, certain financial ratios to be maintained under all the loan facility agreements mentioned above.

During the year, the Group has charged an amortization of SR 2.3 million (2018: SR 2.3 million) in respect of prepaid financing cost.

Following are the combined aggregate amounts of future maturities of the term loans:

	SR'000
2020	**48,242**
2021	**134,800**
2022	**7,430**
2023	**3,250**
2024 and onwards	**1,700**
	195,422

32 EMPLOYEES' DEFINED BENEFIT LIABILITIES

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its defined benefit obligations at 31 December 2019 and 31 December 2018 in respect of employees' end-of-service benefits payable under relevant local regulations and contractual arrangements. The main actuarial assumptions used to calculate the defined unfunded benefit obligation are as follows:

	2019	*2018*
Discount rate	**3.10%**	4.45%
Expected rate of salary increase	**2.60%**	3.95%

The break up of net benefit costs charged to consolidated statement of income is as follows:

	2019	*2018*
	SR'000	*SR'000*
Current service cost	**31,639**	34,465
Interest cost on benefit obligation	**11,034**	8,955
Net benefit expense	**42,673**	43,420

32 EMPLOYEES' DEFINED BENEFIT LIABILITIES (continued)

Changes in the present value of defined unfunded benefit obligation is as follows:

	2019	*2018*
	SR'000	*SR'000*
At the beginning of the year	**246,979**	294,964
Net benefit expense	**42,673**	43,420
Benefits paid	**(52,253)**	(100,903)
Remeasurement (gains) losses on employees' defined benefit liabilities	**(3,067)**	9,498
At the end of the year	**234,332**	246,979

Employees' defined benefit obligations due to a reasonable possible change in the significant actuarial assumptions, as at 31 December 2019 and 2018 is, as show below:

	2019	*2018*
	SR'000	*SR'000*
Discount rate:		
0.5% increase	**223,839**	236,197
0.5% decrease	**245,681**	258,390
Future salary increase:		
0.5% increase	**245,187**	257,870
0.5% decrease	**224,188**	236,572

The sensitivity analysis above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another. The same method has been applied for the sensitivity analysis as when calculating the recognised pension liability.

The following payments are expected against the defined benefit liability in future years:

	2019	*2018*
	SR'000	*SR'000*
Within the next 12 months (next annual reporting period)	**15,061**	17,038
Between 2 and 5 years	**88,081**	95,953
Beyond 5 years	**145,744**	170,422
Total expected payments	**248,886**	283,413

The average duration of the defined benefit plan obligation at the end of the reporting period is 9.41 years (2018: 9.09 years).

33 ACCOUNTS PAYABLE

	2019	*2018*
	SR'000	*SR'000*
Trade accounts payable	**361,168**	415,106
Retentions payable	**25,643**	21,841
Related parties (note 38)	**5,408**	19,574
	392,219	456,521

Trade payables are non-interesting bearing and are normally settled on 30 to 120 days terms. For terms and conditions with related parties, refer to note 38. For explanations on the Group's liquidity risk management processes, refer to note 41.

34 ACCRUALS AND PROVISIONS

	2019 SR'000	2018 SR'000
Accrued expenses	**255,215**	250,728
Accrued contract costs	**144,484**	123,703
Warranties provision	**13,354**	9,480
	413,053	383,911

35 SHORT TERM LOANS

	2019 SR'000	2018 SR'000
Short term loans	**45,817**	60,703
Murabaha and tawarruq finances	**2,154,904**	2,563,845
Saudi Industrial Development Fund ("SIDF")	**281,107**	-
	2,481,828	2,624,548

The short term loans, Murabaha and Tawarruq finances were obtained from various local banks to meet the working capital requirements. These loans are secured by promissory notes and assignment of corporate guarantees and a mortgage on the Group's property, plant and equipment (note 16). These borrowings carry commission charges at prevailing market borrowing rates. The effective commission rate for the year ended 31 December 2019 is 3.52% per annum (2018: 3.25% per annum).

During the year, the Group obtained loan facilities of SR 283 million from SIDF to finance the working capital of its subsidiaries. The prepaid financial charges amounted to SR 4.2 million in which SR 2.4 million was amortized during the year.

36 CONTRACT LIABILITIES

	2019 SR'000	2018 SR'000
Advances from customers	**257,898**	218,930
Billings in excess of value of work executed	**36,130**	73,420
	294,028	292,350

Billings in excess of value of work executed comprise of following:

	2019 SR'000	2018 SR'000
Progress billings received or receivable	**945,147**	891,670
Less: value of work executed	**(909,017)**	(818,250)
	36,130	73,420

37 ZAKAT AND INCOME TAX

The major components of zakat and income tax expense for the year ended 31 December 2019 and 2018 are:

Consolidated statement of income

	2019	*2018*
	SR'000	*SR'000*
Zakat and current income tax:		
Zakat charge	**17,822**	17,311
Current income tax charge	**5,501**	3,157
Deferred taxes	**7,005**	(6,837)
	30,328	13,631

Movement in zakat and income tax for the year was as follows:

	2019	*2018*
	SR '000	*SR '000*
At the beginning of the year	**47,368**	45,649
Current year provision	**23,323**	20,468
Payments during the year	**(25,867)**	(18,598)
Exchange differences	**(15)**	(151)
At the end of the year	**44,809**	47,368

37.1 Zakat

Charge for the year

The zakat charge consists of:

	2019	*2018*
	SR '000	*SR '000*
Current year provision	**17,822**	17,311

The provision for the year is based on zakat base of the Company and its wholly owned Saudi subsidiaries as a whole and individual zakat base of other Saudi subsidiaries.

Status of assessments

The status of assessments of the Company including its wholly owned subsidiaries and major partially owned subsidiaries are as follows:

i) The Company and its wholly owned subsidiaries

The zakat assessments of the Company and its wholly owned Saudi subsidiaries as a whole have been agreed with the General Authority of Zakat and Tax ("the GAZT") up to 2013. The zakat declarations for the years from 2014 to 2018 have been filed with the GAZT. However, the assessments have not yet been raised by the GAZT.

ii) Partially owned subsidiaries

Saudi Preinsulated Pipes Industries

Zakat assessments have been agreed with the GAZT up to 2016. The zakat declarations for the years 2017 and 2018 have been filed with the GAZT. However, the assessments have not yet been raised by the GAZT.

iii) Gulf Insulation Group

Zakat and income tax assessments have been agreed with the GAZT up to 2007. The zakat declarations for the years from 2008 to 2018 have been filed with the GAZT. However, the assessments have not yet been raised by the GAZT.

Zakat base and the income tax provision have been computed based on the Company's understanding of zakat and income tax regulations prevailing in the Kingdom of Saudi Arabia. The zakat and income tax regulations in Saudi Arabia are subject to different interpretations and the assessments to be raised by the GAZT could be different from the declarations filed by the Company.

37 ZAKAT AND INCOME TAX (continued)

37.2 Income tax

Charge for the year

The income tax charge consists of:

	2019	*2018*
	SR '000	*SR '000*
Current year provision	**5,501**	3,157

Income tax provision is provided for in accordance with fiscal authorities in which the Group's subsidiaries operate outside the Kingdom of Saudi Arabia.

Status of assessments

The status of assessment of the major foreign subsidiaries are as follows:

Zamil Air Conditioners India Private Limited

Income tax assessments have been agreed with the Department of Income Tax of India ("the DIT") up to the year ended 31 March 2010. The income tax returns for the years ended 31 March 2011 to 31 March 2019 have been filed with the DIT. However, the final assessments have not yet been raised by the DIT.

Zamil Steel Buildings India Private Limited - India

Income tax assessments have been agreed with the DIT up to the year ended 31 March 2017. The income tax returns for the years ended 31 March 2018 and 2019 have been filed with the DIT. However, the final assessments have not yet been raised by the DIT.

Zamil Construction India Private Limited

Income tax assessments have been agreed with the DIT up to the year ended 31 March 2017. The income tax returns for the years ended 31 March 2018 and 31 March 2019 have been filed with the DIT. However, the final assessments have not yet been raised by the DIT.

Zamil Information Technology Global Private Limited - India

Income tax assessments have been agreed with the DIT up to the year ended 31 March 2018. The income tax returns of the company for the year ended 31 March 2019 have been filed with the DIT. However, the final assessments have not yet been raised by the DIT for any of the year.

Zamil Steel Engineering India Private Limited - India

Income tax assessments have been agreed with the DIT up to the year ended 31 March 2017. The income tax returns of the company for the years ended 31 March 2018 and 31 March 2019 have been filed with the DIT. However, the final assessments have not yet been raised by the DIT for any of the year.

Zamil Steel Buildings Vietnam Company Limited

Income tax assessments have been agreed with the tax authorities ("the TA") of Vietnam up to the year 2017. The income tax returns of the company for the year ended 31 December 2018 have been filed with the DIT.

Zamil Structural Steel - S.A.E - Private Free Zone

The company, was established under the free zone system according to the provision of Investment Guarantees and Incentive Law number 8 of 1997. Accordingly, the company is exempted from corporate taxes and withholding taxes and these privileges will continue to apply for the lifetime of the company.

Zamil Steel Buildings Company Egypt - S.A.E

Income tax assessments have been agreed with the Egyptian tax authorities ("the tax authorities") up to the year 2017. The income tax return for the year 2018 has been filed with the tax authorities. However, the final assessments have not yet been raised by tax authorities.

Income tax has been computed based on the management's understanding of the income tax regulations enforced in their respective countries. The income tax regulations are subject to different interpretations, and the assessments to be raised by the tax authorities could be different from the income tax returns filed by the respective company.

37.3 Deferred tax

Deferred tax assets

The deferred tax assets relate to foreign subsidiaries in Vietnam, Egypt and India. The subsidiary in Egypt has incurred losses over the last two financial years and such losses are available for next five years for offset against future taxable profits of the subsidiary. The Group has concluded that the deferred assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets for the subsidiaries.

37 ZAKAT AND INCOME TAX (continued)

37.3 Deferred tax (continued)

Deferred tax assets (continued)

The deferred tax asset comprises of timing differences relating to:

	2019 **SR'000**	2018 SR'000
Deferred tax asset		
Accruals and provisions	**6,863**	6,982
Taxable losses carry forward	**-**	3,869
Total deferred tax assets	**6,863**	10,851
Deferred tax liability		
Accelerated depreciation for tax purposes	**(839)**	(620)
Total deferred tax liability	**(839)**	(620)
Net deferred tax asset	**6,024**	10,231

Reconciliation of deferred tax assets, net was as follows:

	2019 **SR '000**	2018 SR '000
At the beginning of the year	**10,231**	6,899
Tax (expense) benefit during the year recognised in consolidated statement of income	**(4,599)**	3,453
Exchange differences	**392**	(121)
At the end of the year	**6,024**	10,231

Deferred tax liabilities

The deferred tax liabilities relates to a partially owned Saudi subsidiary with a foreign shareholder. The deferred tax liabilities comprise of timing differences relating to:

	2019 **SR'000**	2018 SR'000
Deferred tax liability		
Accelerated depreciation for tax purposes	**9,233**	6,588
Total deferred tax liability	**9,233**	6,588
Deferred tax asset		
Employees' defined benefit liabilities	**(684)**	(671)
Allowance for doubtful debts	**(1,098)**	(912)
Allowance for slow moving inventories	**(63)**	(23)
Total deferred tax assets	**(1,845)**	(1,606)
Net deferred tax liability	**7,388**	4,982

Reconciliation of deferred tax liabilities, net was as follows:

	2019 **SR'000**	2018 SR'000
At the beginning of the year	**4,982**	8,366
Tax expense (benefit) recognised in consolidated statement of income	**2,406**	(3,384)
At the end of the year	**7,388**	4,982

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

38 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel of the Group, and entities controlled or significantly influenced by such parties. The next senior and ultimate parent company of the Group is Zamil Group Holding Company (a Saudi Closed Joint Stock Company) registered in Dammam, Kingdom of Saudi Arabia.

The Group in the normal course of business carries out transactions with various related parties. Amounts due from/to related parties are shown under accounts receivable and account payable respectively. Transactions with related parties included in the consolidated statement of income are as follows:

Relationship and name of related party		*Sales to related parties*	*Purchases from related parties*	*Amounts owed by related parties*	*Amounts owed to related parties*
		SR'000	*SR'000*	*SR'000*	*SR'000*
Ultimate parent company					
Zamil Group Holding Company	***2019***	**1,836**	**113**	**3,216**	**-**
	2018	6,330	-	3,513	-
Joint venture					
Middle East Air Conditioners Co. Ltd.	***2019***	**32,078**	**-**	**19,853**	**-**
	2018	9,962	-	18,252	-
Associates					
Rabiah Nasser & Zamil Concrete Industries Company Limited	***2019***	**-**	**-**	**17,843**	**-**
	2018	-	-	12,804	-
Energy Central Company - Bahrain	***2019***	**-**	**-**	**-**	**-**
	2018	-	-	-	14,900
Geoclima - Italy	***2019***	**-**	**-**	**-**	**-**
	2018	-	-	2,382	-
ZNA Infra Private Limited - India	***2019***	**-**	**-**	**54,160**	**-**
	2018	-	-	37,890	-
Other related parties					
United Carton Industries	***2019***	**804**	**1,099**	**-**	**213**
	2018	716	2,328	8,758	-
Zamil Architectural Holding Company	***2019***	**220**	**1,013**	**-**	**1,444**
	2018	4,220	468	3,173	-
Others	***2019***	**12,891**	**23,072**	**7,634**	**3,751**
	2018	9,917	27,760	8,279	4,674
Total	***2019***	**47,829**	**25,297**	**102,706**	**5,408**
	2018	31,145	30,556	95,051	19,574

The compensation to the key management personnel during the year ended 31 December 2019 amounted to SR 6.76 million (2018: SR 7.05 million). The directors' remuneration for the year ended 31 December 2019 amounted to SR 1.6 million (2018: SR 1.6 million).

Pricing policies and terms of payments of transactions with related parties are approved by the Board of Directors. Outstanding balances at the year end are unsecured, interest free and settled in cash. During the year, the Group recognised provision for expected credit losses of SR 14.5 million (2018: SR 23.2 million) relating to amounts owed by related parties and has been recognised as part of net loss from discontinued operations in the consolidated statement of income.

The amounts due from and due to related parties have been classified as account receivables and account payables respectively in the consolidated statement of financial position (refer to note 24 and 33).

39 CONTINGENCIES AND COMMITMENTS

Guarantees

The Group's bankers have issued performance and payments guarantees, on behalf of the Group, amounting to SR 1,080 million (2018: SR 1,079 million).

Capital commitments

The board of directors have approved future capital expenditure amounting to SR 30 million (2018: SR 21 million), relating to certain expansion projects.

40 SEGMENTAL INFORMATION

For management purposes, the Group is organised into business units based on its products and services and has four reportable segments, as follows:

- The air conditioners industry, which is engaged in production of window, split and central air conditioners, electrical and gas ovens, automatic dryers, microwave ovens, air-conditioning ducts/channels, household refrigerators, automatic washing machines and installation, maintenance, operation and leasing of air conditioning and refrigeration systems.
- The steel industry, which is engaged in construction, managing and operating industrial projects, constructing, managing and operating airports and warehouses, constructing and providing fire protection services for building and structures, building, repairing and maintaining the communication towers, business of steel sheets works, heavy equipment and its spare parts, storage tanks, installation containers and pumps and implementation of electric works.
- The insulation industry, which is engaged in production of complete line of insulation products including fiberglass for using in thermal insulation of central air conditioners, pre-insulated pipes, glass wool, rock wool and engineering plastic foam insulations.
- Corporate and others, which are engaged in providing corporate and shared services, training and investment activities.

The Board of directors monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on income and is measured consistently in the consolidated financial statements.

40 SEGMENTAL INFORMATION (continued)

Inter-segment revenues are eliminated upon consolidation and reflected in the 'adjustments and eliminations' column. All other adjustments and eliminations are part of detailed reconciliations presented further below.

Business segments

	For the year ended 31 December 2019 (SR '000)						
	Air conditioner industry	*Steel industry*	*Insulation industry*	*Corporate and others*	*Total segments*	*Adjustments and eliminations*	*Consolidated*
Revenue from contracts with customers:							
External customer	**1,720,834**	**2,264,827**	**271,257**	**6,331**	**4,263,249**	**-**	**4,263,249**
Inter-segment	**18,049**	**234**	**17,441**	**1,361**	**37,085**	**(37,085)**	**-**
	1,738,883	**2,265,061**	**288,698**	**7,692**	**4,300,334**	**(37,085)**	**4,263,249**
Finance lease income	**14,977**	**-**	**-**	**-**	**14,977**	**-**	**14,977**
Total revenue	**1,753,860**	**2,265,061**	**288,698**	**7,692**	**4,315,311**	**(37,085)**	**4,278,226**
Timing of revenue recognition:							
At a point in time	**1,214,053**	**1,673,166**	**271,257**	**6,331**	**3,164,807**	**-**	**3,164,807**
Over time	**506,781**	**591,661**	**-**	**-**	**1,098,442**	**-**	**1,098,442**
	1,720,834	**2,264,827**	**271,257**	**6,331**	**4,263,249**	**-**	**4,263,249**
Gross profit (loss)	**179,774**	**322,347**	**93,096**	**(11,400)**	**583,817**	**14,130**	**597,947**
Operating (loss) income	**(63,464)**	**20,618**	**29,644**	**(30,800)**	**(44,002)**	**14,677**	**(29,325)**
Unallocated income (expenses):							
Share in results of associates and a joint venture							**9,195**
Other income, net							**21,540**
Financial charges							**(121,379)**
Reversal of impairment losses on non-current assets							**34,584**
Loss before zakat and income tax and discontinued operations							**(85,385)**
Zakat and income tax							**(30,328)**
Discontinued operations							**(13,997)**
Net loss for the year							**(129,710)**

40 SEGMENTAL INFORMATION (continued)

Business segments (continued)

For the year ended 31 December 2018 (SR '000)

	Air conditioner industry	*Steel industry*	*Insulation industry*	*Corporate and others*	*Total segments*	*Adjustments and eliminations*	*Consolidated*
Revenue from contracts with customers:							
External customer	1,858,123	2,140,722	287,766	11,123	4,297,734	-	4,297,734
Inter-segment	10,132	-	14,384	4,853	29,369	(29,369)	-
	1,868,255	2,140,722	302,150	15,976	4,327,103	(29,369)	4,297,734
Finance lease income	15,915	-	-	-	15,915	-	15,915
Total revenue	1,884,170	2,140,722	302,150	15,976	4,343,018	(29,369)	4,313,649
Timing of revenue recognition:							
At a point in time	1,329,612	1,714,981	287,766	11,123	3,343,482	-	3,343,482
Over time	528,511	425,741	-	-	954,252	-	954,252
	1,858,123	2,140,722	287,766	11,123	4,297,734	-	4,297,734
Gross profit (loss)	285,648	332,008	90,717	(4,654)	703,719	11,651	715,370
Operating income (loss)	(28,582)	(227)	22,501	(8,549)	(14,857)	1,782	(13,075)
Unallocated income (expenses):							
Share in results of associates and a joint venture							(3,964)
Other income, net							6,256
Financial charges							(103,211)
Reversal of impairment losses on non-current assets							47,967
Loss before zakat and income tax and discontinued operations							(66,027)
Zakat and income tax							(13,631)
Discontinued operations							(54,328)
Net loss for the year							(133,986)

At 31 December 2019 (SR '000)

	Air conditioner industry	*Steel industry*	*Insulation industry*	*Corporate and others*	*Total segments*	*Adjustments and eliminations*	*Consolidated*
Total assets	**2,516,615**	**2,332,759**	**504,801**	**563,371**	**5,917,546**	**(274,148)**	**5,643,398**
Total liabilities	**1,759,422**	**1,476,866**	**201,812**	**1,031,271**	**4,469,371**	**(305,808)**	**4,163,563**
Others:							
Investment in associates and a joint venture	**11,079**	**-**	**-**	**68,793**	**79,872**	**-**	**79,872**
Capital expenditure	**7,212**	**12,362**	**8,807**	**295**	**28,676**	**-**	**28,676**

40 SEGMENTAL INFORMATION (continued)

Business segments (continued)

At 31 December 2018 (SR '000)

	Air conditioner industry	*Steel industry*	*Insulation industry*	*Corporate and others*	*Total segments*	*Adjustments and eliminations*	*Consolidated*
Total assets	2,792,442	2,113,405	547,063	700,355	6,153,265	(390,054)	5,763,211
Total liabilities	1,988,533	1,293,060	230,754	998,922	4,511,269	(372,173)	4,139,096
Others:							
Investment in associates and a joint venture	11,136	-	-	74,248	85,384	-	85,384
Capital expenditure	11,690	15,528	7,273	1,051	35,542	-	35,542

Capital expenditure consists of additions of property, plant and equipment and intangible assets.

Geographic information

	2019 ***SR '000***	*2018* *SR '000*
Revenue from external customers:		
Saudi Arabia	**3,342,745**	3,365,138
Other Asian countries	**581,160**	611,873
Africa	**354,321**	336,638
	4,278,226	4,313,649

	2019 ***SR '000***	*2018* *SR '000*
Non-current operating assets:		
Saudi Arabia	**802,770**	853,188
Other Asian countries	**203,518**	95,648
Africa	**73,606**	74,705
	1,079,894	1,023,541

Non-current assets for this purpose consist of property, plant and equipment, right-of-use assets and other intangible assets.

41 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise loans and borrowings and accounts payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include accounts receivables, net investment in finance lease, short-term deposits, cash and bank balances that derive directly from its operations. The Group also holds investment in unquoted shares that is classified as equity investment at fair value through other comprehensive income.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's senior management regularly review the policies and procedures to ensure that all the financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. The Group does not engage into any hedging activities. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarized below.

41 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: commission rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings, short-term deposits and equity instruments at fair value through other comprehensive income. The sensitivity analyses in the following sections relate to the position as at 31 December 2019 and 2018.

Commission rate risk

Commission rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates. The Group's exposure to the risk of changes in market commission rates relates primarily to the Group's long-term and short-term loans and its short-term deposits. The Group manages its exposure to commission rate risk by continuously monitoring movements in commission rates. At 31 December 2019 and 2018, the Group's exposure to commission rate risk was not significant as its major long-term and short-term loans were subject fixed commission rates.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency) and the Group's net investments in foreign subsidiaries and associates. The Group did not undertake significant transactions in currencies other than Saudi Riyals, US Dollars, Japanese Yen, Egyptian Pound, Indian Rupees and Euros during the year. As Saudi Riyals are pegged to US Dollars, balances in US Dollars are not considered to represent significant currency risk. The Group is exposed to currency risk on transactions and balances in Euros, Japanese Yen, Indian Rupees and Egyptian Pound. The Group manages currency risk exposure to Euros, Japanese Yen, Indian Rupees and Egyptian Pound by continuously monitoring the currency fluctuations. At 31 December 2019 and 2018, the Group's exposure to foreign currency changes for its accounts receivable and accounts payable was not material.

The Group is exposed to significant foreign currency changes on its net investment in foreign operations in Egyptian Pounds and India Rupees. The following tables demonstrate the sensitivity to a reasonably possible change in Egyptian Pound and Indian Rupee exchange rates, with all other variables held constant. The impact on the Group's pre-tax equity is due to changes in the fair value of monetary assets and liabilities. The Group's exposure to foreign currency changes for all other currencies is not material.

	Change in Egyptian Pound rate	*Effect on other components in equity*
		SR '000
31 December 2019	**+3%**	**1,086**
	-3%	**(1,086)**
31 December 2018	+9%	1,438
	-9%	(1,438)

	Change in Indian Rupee rate	*Effect on other components in equity*
		SR '000
31 December 2019	**+2%**	**1,953**
	-2%	**(1,953)**
31 December 2018	+2%	53
	-2%	(53)

41 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

a) Market risk (continued)

Commodity risk

The Group is exposed to the impact of market fluctuations of the price of various inputs to production including steel, electric parts, glass materials and electricity. The Group prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of such materials to manage the risk.

Equity price risk

The Group's unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.

At the reporting date, the exposure to unlisted equity securities at fair value was SR 39,140 thousands (2018: SR 40,538 thousands).

b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk on its bank balances, short-term deposits, accounts receivables, contract assets, net investment in finance lease and some other receivables as follows:

	2019	*2018*
	SR '000	*SR '000*
Bank balances	**167,381**	126,892
Short-term deposits	**26,016**	21,805
Accounts receivable	**1,895,662**	2,043,156
Contract assets	**494,756**	413,369
Net investments in finance lease	**340,682**	363,283
Other receivables	**157,665**	152,752
	3,082,162	3,121,257

Accounts receivable and contract assets

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. The Group seeks to manage its credit risk with respect to customers by setting credit limits for individual customers, monitoring outstanding receivables and ensuring close follow ups.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses for each business unit of the Group. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e. geographical region, product type, customer type and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the Group's historical observed loss rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in a particular sector, the historical loss rates are adjusted. At every reporting date, the historical observed loss rates are updated and changes in the forward-looking estimates are analysed. The assessment of the correlation between historical observed loss rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual loss in the future.

41 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

b) Credit risk (continued)

Generally, accounts receivables are written-off if past due for more than three years and are not subject to enforcement activity. It is not the practice of the Group to obtain collateral over receivables and the vast majority are, therefore, unsecured. At 31 December 2019, the Group has obtained letter of credits as collateral over its receivables amounting to SR 145.3 million (2018: 245.8 million) from its certain customers. The Group determined that such receivable are not exposed to significant credit risk and therefore have not been considered in ECL assessment. The Group evaluates the concentration of risk with respect to trade accounts receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent
Set out below is the information about the credit risk exposure at 31 December 2019 on the Group's accounts receivables, net investment in finance lease and contract assets:

	2019	*2018*
	SR '000	*SR '000*
Accounts receivable:		
Current	**563,495**	540,223
Less than 30 days	**115,783**	207,969
31 - 60 days	**100,271**	146,249
61 - 90 days	**96,280**	93,284
91 - 180 days	**162,108**	177,362
181-360 days	**172,090**	186,398
More than 360 days	**555,268**	490,617
	1,765,295	1,842,102
Receivables from related parties	**102,706**	95,051
Retention receivable	**207,664**	171,852
Net investment in finance lease	**340,682**	363,283
Contract assets	**501,695**	415,397
	2,918,042	2,887,685

Based on a provision matrix, the Group's expected credit losses at 31 December 2019 against its accounts receivable and contract assets exposed to credit risk amounted to SR 325.3 million and SR 6.9 million (2018: SR 311.6 million and SR 2.02 million) respectively. Accordingly, the Group recognised an amount of SR 22.3 million (2018: SR 124.08 million) as provision for expected credit losses in its consolidated statement of income for its continuing operations. Related parties receivable include an amount of SR 54.2 million (2018: 37.9 million) attributable to discontinued operations. The Group recognised an amount of SR 14.5 million (2018: 23.2 million) as provision for expected credit losses as part of its net loss on discontinued operations in the consolidated statement of income.

Bank balances and short term deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. The Group seeks to manage its credit risk with respect to banks by only dealing with reputable banks. At the reporting date, no significant concentration of credit risk were identified by the management.

41 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to realize financial assets quickly at an amount close to its fair value. The Group manages its liquidity risk by monitoring working capital and cash flow requirements on regular basis. The Group manages its liquidity risk by ensuring that bank facilities are available. The Group's terms of sales require amounts to be paid within 30 to 90 days of the date of submitting the invoice. Trade payables are normally settled within 30 to 120 days of the date of purchase.

Excessive concentration risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group’s performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Group’s management focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The table below summarises the maturity profile of the Group’s financial liabilities based on contractual undiscounted payments:

	As at 31 December 2019					
	on demand	*< 6 months*	*6 to 12 months*	*1 to 5 years*	*> 5 years*	*Total SR' 000*
Accounts payable	**5,408**	**386,811**	**-**	**-**	**-**	**392,219**
Lease liabilities	**-**	**10,430**	**14,289**	**56,684**	**55,328**	**136,731**
Other financial liabilities	**-**	**399,699**	**-**	**-**	**-**	**399,699**
Interest bearing loans and borrowings	**28,542**	**2,200,721**	**302,700**	**147,180**	**-**	**2,679,143**
	33,950	**2,997,661**	**316,989**	**203,864**	**55,328**	**3,607,792**

	As at 31 December 2018					
	on demand	*< 6 months*	*6 to 12 months*	*1 to 5 years*	*> 5 years*	*Total SR' 000*
Accounts payable	19,574	436,947	-	-	-	456,521
Other financial liabilities	-	374,431	-	-	-	374,431
Interest bearing loans and borrowings	30,000	2,630,648	8,400	39,442	1,700	2,710,190
	49,574	3,442,026	8,400	39,442	1,700	3,541,142

42 CAPITAL MANAGEMENT

The primary objective of the Group’s capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the year ended 31 December 2019 and the year ended 31 December 2018. Capital comprises share capital, statutory reserve, retained earnings and other reserves and is measured at SR 1,278,767 thousands as at 31 December 2019 (2018: SR 1,415,946 thousands).

43 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair values

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

As of reporting date, there were no Level 1, 2 or 3 assets or liabilities except for equity investments through other comprehensive income in unquoted shares and these have been valued using Level 3 valuation technique.

Financial assets consist of cash and cash equivalents, equity investments at fair value through other comprehensive income, accounts receivable, net investment in finance lease and some other current assets. Financial liabilities consist of term loans, short term loan, accounts payable and some other current liabilities. The fair values of financial assets and financial liabilities approximate to their carrying amounts.

Set out below is a comparison, of the carrying amounts and fair values of the Group's equity investments at fair value through other comprehensive income:

	Carrying value	***Fair value***	***Fair value measurement using***		
			Level 1	***Level 2***	***Level 3***
	SR '000	***SR '000***	***SR '000***	***SR '000***	***SR '000***
31 December 2019					
Equity instruments at fair value through other comprehensive income					
At fair value	**39,140**	**39,140**	**-**	**-**	**39,140**
	39,140	**39,140**	**-**	**-**	**39,140**

	Carrying value	*Fair value*	*Fair value measurement using*		
			Level 1	*Level 2*	*Level 3*
	SR '000	*SR '000*	*SR '000*	*SR '000*	*SR '000*
31 December 2018					
Equity instruments at fair value through other comprehensive income					
At fair value	40,538	40,538	-	-	40,538
	40,538	40,538	-	-	40,538

The fair value of the Group's investments in unquoted equity shares at 31 December 2019 and 2018 have been measured using Level 3 (significant unobservable inputs). The Group estimated the fair value of the investment using adjusted net asset method at 31 December 2019 and 2018. The adjusted net asset method involves deriving the fair value of an investee's equity instruments by reference to the fair value of its assets and liabilities.

44 COMPARATIVE FIGURES

Certain of the prior year numbers have been reclassified to conform with the presentation in the current period.

45 SUBSEQUENT EVENTS

Coronavirus disease (COVID-19) has spread across the nationwide causing disruption to businesses and economies. The Group considers this to be a non-adjusting post balance sheet date event due to the impossibility of accurately estimating the potential financial impact on the Group as of now. The Group is currently assessing the financial impact and the results will be reflected in 2020 consolidated financial statements, if any.

In the opinion of management, there have been no further significant subsequent events since the year ended 31 December 2019 that would have a material impact on the financial position of the Group as reflected in these consolidated financial statements.